Pineland
Forest Nursery

Annual Report
2002-2003

104-00482/

MINISTER OF CONSERVATION

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

His Honour the Honourable Peter M. Liba, C.M., O.M.
Lieutenant Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C OV8

Your Honour:

I have the privilege of presenting the Annual Report for Pineland Forest Nursery for the year ending March 31, 2003.

Sincerely,

Steve Ashton
Minister

Manitoba

Deputy Minister of
Conservation

Legislative Building
Winnipeg, Manitoba CANADA
R3C 0V8

Honourable Steve Ashton
Minister of Conservation
333 Legislative Building
Winnipeg, Manitoba
R3C OV8

Dear Minister:

I am pleased to submit the Annual Report for Pineland Forest Nursery for the year ending March 31, 2003.

Pineland Forest Nursery has completed an eighth successful year as a Special Operating Agency. Pineland continues to compete successfully for seedling contracts in the market place with almost half of its revenue derived from the private sector in Canada and the United States.

For the year ending March 31, 2003 Pineland Forest Nursery reports a loss of $162,000. This is partially the result of reduced forest harvesting and the subsequent reduction in tree planting which has occurred from the softwood lumber issue between Canada and the United States. Since Pineland Forest Nursery's designation as a Special Operating Agency, total retained earnings is an impressive $588,000. Pineland Forest Nursery employs local residents for a total annual payroll of nearly $1.4 million.

The Advisory Board is proud to be associated with Pineland Forest Nursery and is confident that the Agency will continue to meet the challenges of the future.

Yours sincerely,

Norman Brandson, Chairperson
Pineland Forest Nursery
Advisory Board

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Advisory Board Members

Mr. Norman Brandson Deputy Minister Manitoba Conservation	Chairman
Mr. Ken Holme Owner & Operator K.C.'s Outfitting	Member
Mr. Andre Chaput Representative	Member
Mr. Doug Hunt Forestry Superintendent Tolko, Manitoba	Member
Mr. Don Cook Director of Forestry Manitoba Conservation	Member
Ms. Shelly Rzyhak Staff Representative Pineland Forest Nursery	Member
Mr. David Wotton Assistant Deputy Minister Manitoba Conservation	Member (ex officio)
Trevor Stanley Acting/Chief Executive Officer Pineland Forest Nursery	Member (ex officio)

Agency Management

Trevor Stanley	Acting/Chief Executive Officer Manager Seedling Production, Marketing & Client Services
David Flight	Manager, Shipping, Seed Services, Poplar Program, Contracts
Richard Lepage	Manager, Quality Assurance
Barb North	Manager, Operations, Tree Improvement, Security
Linda Rzyhak	Manager, Administration
David Turchyn	Manager, Maintenance Operations

Pineland
Forest Nursery

This marks our eighth annual report as a Special Operating Agency. During the past year Pineland continued to maintain it's current client base as well as add some new clients. With the down swing in orders from Canadian clients continuing due to the trade dispute with the U.S. over softwood lumber exports combined with low forest commodity prices we have been offsetting some of the reductions by increasing our client base in Minnesota.

Mid way through this past fiscal year Pineland's Chief Executive Officer, Ivan Balenovic, resigned to pursue another business venture. I would like to thank Ivan for the exceptional job he did at Pineland over the past four years and wish him well in his new business. He was an integral part of the improvements that we have undertaken during the time he was here. Since his departure three members of the Senior Management Team, David Flight, Barb North and myself, have manned the Chief Executive Officer position on a rotating basis. Because of the stellar efforts of the rest of the Senior Management Team, Linda Rzyhak, Richard Lepage, David Turchyn and the hard work of the rest of the staff of Pineland we were able to continue to provide superior products and services to our clients throughout this period.

The cost of natural gas was up significantly over the previous year as record cold April, May, and October periods occurred. Although costs per cubic meter were relatively similar to the previous year, consumption during April, May and October was up by 85%. Overall consumption remains significantly lower than before implementing our energy reduction strategy in 2000.

In 2002 Pineland grew 16.4 million seedlings, which is a slight increase from 2001. We anticipate a modest production increase for 2003. The trend for larger seedlings continued as foresters are forced to deal with more competitive sites, doing less intensive site preparation and using less herbicide applications. We continued our efforts towards increasing efficiencies of our growing structures. We achieved this by insulating some of the less energy efficient structures and redesigning more facilities to better handle some of the new tray types we are growing in.

During the year Pineland employed 79 people for a total of 39 staff years. Pineland continues to be a key business in the region and is one of the largest employers in the area with a payroll this year of $1.4 million.

Pineland Forest Nursery management and staff thank the members of the Advisory Board for their guidance and support throughout the year. We would also like to thank David Wotton our Assistant Deputy Minister for his help and support during the interim period.

Trevor Stanley
General Manager

BACKGROUND

In 1953, 128 hectares of land was acquired by Manitoba, approximately 100 kilometres east of Winnipeg on the Trans Canada Highway near Hadashville, for the establishment of Pineland Forest Nursery. The nursery was to service all the requirements of the province of Manitoba's reforestation programs. An expansion of the nursery was accomplished later through the 1987 Canada/Manitoba Forestry Agreement. This included a tree improvement facility, additional greenhouses and a cold storage facility.

On April 1, 1995, Pineland Forest Nursery was designated as a Special Operating Agency (SOA). This has enabled the nursery to expand its client base from one client, the province of Manitoba, to the present client base, which includes other provincial governments and large forestry companies in Alberta, Saskatchewan, Manitoba, Ontario and the United States.

By growing its client base and increasing production since being designated a Special Operating Agency, Pineland Forest Nursery has become a key business in the community and one of the largest employers in the area with an annual payroll of $1.4 million.

AGENCY STRUCTURE

Pineland Forest Nursery is an organization within the departmental structure, and is accountable to the Assistant Deputy Minister, the Deputy Minister and the Minister of Conservation for operational and financial performance. The Agency operates outside the Consolidated Fund, under the Special Operating Agencies Financing Authority (SOAFA), which holds title to the Agency's assets, provides financing for operations, and is responsible for the Agency's liabilities.

Governance and accountability are supported by the Agency's compliance with its Operating Charter, Transfer Agreement, Management Agreement, General Manual of Administration policies (except where exempt as outlined in the Charter) and by The Special Operating Agencies Financing Authority Act.

The day-to-day operations of the Agency are the responsibility of the Chief Executive Officer who plans and reports to the Agency's Advisory Board. The Advisory Board is chaired by the Deputy Minister of Conservation, with representation from both government and non-government bodies. The Assistant Deputy Minister of Conservation and the Chief Executive Officer are ex officio members of the Board. Other members include two client representatives, two representatives from the private sector knowledgeable in private sector business, and one elected representative from Pineland's staff.

The role of the Advisory Board is to:

- offer advice on the Agency's direction and objectives, performance, business practices, marketing strategies, management and financial reporting requirements;

- review the Agency's Quarterly Financial Reports, Annual Report and Annual Business Plan; and,

- offer support regarding private, public and client sector issues and initiatives.

MANDATE

Pineland Forest Nursery was mandated through a Treasury Board approved Business Plan to:

- produce container seedlings for Manitoba reforestation programs and other clients across Canada and the United States;
- provide seed extraction, testing, cleaning, grading, storage and inventory services for all seed used in reforestation practices;
- provide support services for the provincial tree improvement program;
- maintain a stock identification system for the province, and provide professional information to field staff.

PINELAND FOREST NURSERY'S MISSION

To provide the highest quality integrated seedling growing and related services to forest sector clients in Canada and the United States.

PINELAND FOREST NURSERY'S VISION

For Pineland Forest Nursery to become a financially self-sustaining operation and to be recognized as one of the best seedling production facilities in Canada.

GUIDING VALUES

- To maintain a high quality of products and services offered through sound growing practices and quality assurance activities
- To operate in an efficient, fiscally responsible and business like manner
- To be reliable in providing service to clients
- To maintain integrity with clients
- To ensure facilities are efficient and continuously improved utilizing the best available technology
- To maintain a stable, knowledgeable and experienced work force
- To ensure key staff are kept current on scientific and technical developments in seedling production
- To ensure staff are valued and respected in the workplace
- To be pro-active in the development of new products and services
- To be re-active to clients' changing needs

PRODUCTS AND SERVICES

Seedling Production

Seedlings are grown in Multi-Pot, Styroblock, Jiffy, and BCC containers inside 54 (7.35 acres) climate controlled greenhouses, one Tree Improvement facilty and one 10 bay gutter connected complex where growing conditions are meticulously monitored and optimized and. The gutter connected complex and the different types of growing structures on site permits Pineland Forest Nursery to sow seedlings in any month of the year. This flexibility ensures that seedlings meet the precise specifications required for each of our client's planting sites. The Tree Improvement facility and the staff expertise allow us to produce high value research crops for our clients.

Three types of container stock are grown - current, overwinter and double flush. Current crop seedlings are sown in winter to be lifted, graded and packaged in the summer for immediate shipment. Overwintered crop seedlings are sown in spring to be lifted, graded and packaged in the late fall, then stored in one of three large freezers and shipped in the winter for snow cache or in the spring for immediate planting. Double flush crop seedlings are started as a current crop, put through artificial dormancy, grown a second time during the summer months and packaged as an overwinter crop. The double flush crop will in effect, grow the equivalent of a two year old tree in just one year.

Quality Assurance

To ensure that our customers receive seedlings that are of the highest possible quality, all of the seedlings grown at Pineland are constantly evaluated and monitored. Container seedling lots are sampled and evaluated biweekly for growth progression and growing media. Once the stock has hardened off seedling lots are also evaluated for bud development. Knowledge of the degree of bud initiation or development within a group of seedlings is very important, as bud formation marks the transition from shoot elongation to shoot dormancy, and is associated with the development of frost hardiness and increased resistance to stresses.

The buds of sample seedlings are disected and use the timing of bud initiation and needle primordia development as tools for assessing the readiness of crops for overwintering. When the initiation of new primordia ceases, buds are fully developed, marking the point at which large increases in frost hardiness develop. In addition, by counting needle primordia, we can also provide our customers with the potential for growth they can expect from their seedlings in their first growing season.

Frost hardiness monitoring begins six weeks after bud initiation, in a progression of tests in which shoot tips are collected from sample seedlings, frozen at a known temperature, brought back to room temperature and then immersed in distilled water. The electrical conductivity of the water is then measured, to provide an accurate gauge of the amount of electrolytes that have been released into the solution by the seedlings due to cell damage. The less electrolytes released, the hardier the seedlings have become. Seedlings are subjected to freezer tests at -40˚C. Only when they are hardy to this level are they considered ready for prolonged frozen storage.

All seedlings undergo quality monitoring while stored at Pineland. Seedlings are randomly selected, potted, and placed in a controlled greenhouse environment for twenty-one days. After the test growth period has ended, the trees are assessed for root regeneration and shoot growth. Monitoring stock allows us to ensure that our customers always receive vigorous seedlings that will survive and thrive in their final planting site.

A random sample from each load is taken prior to shipping and out-planted in a control area outdoors, where they are left to grow naturally. A sample of all snow cache seedlings are also returned to Pineland for out-planting. Any problems our clients may experience in the field with a particular shipment can be compared to the planted stock for possible cause determination. At the end of the growing season out-planted trees are assessed for survival and growth, to give a further indication of the quality of the shipment.

Lifting, Grading, Storage and Delivery

While seedlings are being lifted in the packaging building they are graded according to the client's individual specifications which are posted in height and diameter. Graders also make assessments related to appropriate root and stem structure as well as foliage colour. Seedlings that do not meet specifications are discarded. Major upgrades have been undertaken in the packaging building over the last two years that have increased production and improved quality.

Current crop seedlings are lifted in the summer, then packaged in boxes and immediately loaded into refrigerated highway trailers, which are maintained at +1˚C to +3˚C for delivery to the planting site.

Overwinter crop seedlings are lifted in the fall, then packaged in boxes and stored frozen at -3˚C for delivery in the winter or spring. In total, Pineland's cold storage facilities can accommodate 20 million seedlings.

To most of our major customers, seedlings are delivered to the planting site by truck in our own refrigerated trailers. In remote planting areas that are only accessible by truck in winter using ice roads, seedlings are delivered and stored on-site in specially constructed snow caches, which keep the seedlings frozen and protected until spring planting.

Offsite Field Consultation

Our responsibility and commitment to producing superior trees does not end when the trees are shipped to the client. The experience and knowledge of Pineland's staff is utilized by our clients and their tree planting contractors as needed in order to maximize reforestation effectiveness.

Pineland's offsite consultation involves meeting with clients and assessing the sites they will be planting to determine, with the client what stock types would be suited for their sites. We also review previous planting sites to determine growth progression. If there are problems with any of the plantations we are best able to resolve them by working directly with the client in the field to determine the most likely cause of the problem. In addition to assessing crops and solving problems the field consultations afford us the opportunity to work with the clients in the development of new

products. There is significant value in being involved with the client's specific needs first hand in order to determine how best to improve the products and services we provide.

Seed Services

Pineland is the only provider of forestry seed extraction services in the province of Manitoba. In 2002/2003 2,900 hectolitres of cones were processed.

Pineland offers two levels of seed cleaning, aerial (basic) grade and premium (greenhouse) grade. Aerial grade cleaning is almost exclusively jack pine. The seed is cleaned to a minimum of 96% purity and is used for broadcast sowing from an aircraft or direct seeding onto the site. Premium grade processing is required where seed of higher purity (>99%) is needed, generally for greenhouse use. As well, Pineland has the capability to do specialized, small scale cleaning of seed where very small lots (i.e. <1 litre) of cones are processed, such as those for genetic research trials where cone lots from individual trees are required.

Once processed, the seed is stored in large, airtight plastic containers, and can be safely kept in Pineland's cold storage facilities at -12°C for more than ten years (if required) before use. To ensure quality is maintained, seed in cold storage is sampled periodically for purity, moisture content, weight and viability.

Tree Improvement

For many years, Pineland Forest Nursery has provided tree improvement services to Manitoba Conservation, including seed extraction, growing family tests, grafting, accelerated growth of grafted stock in our greenhouses, planting and maintenance of clone banks and seed orchards. The Manitoba Forestry Branch has developed partnerships with the Tree Improvement Program and forest companies in Manitoba. This program has expanded to some of our clients in Northwestern Ontario. The Ontario government is funding a program that allows forestry companies to develop a tree improvement program. Because of the facilities and the expertise, Pineland Forest Nursery is better suited than most other nurseries to provide this service. Pineland Forest Nursery also provides growing, monitoring, irrigation and technical consultation services to the provincial Dutch Elm Disease research program.

Poplar Program

In conjunction with an eastern university and an Ontario forestry company, Pineland is undertaking a hybrid poplar research program. Poplar stool beds were established in 1997 to identify hybrid clones that are genetically superior, hardy and demonstrate certain commercially desirable characteristics. Since the stool beds were established, the total number of families growing have been significantly reduced through a culling process that eliminates trees that are considered less superior. Annually, the superior poplar trees are cut into eight-inch lengths for direct planting in locations where they will grow to maturity for future commercial harvesting.

MARKETS

Environmental Analysis

In the 1980's, seedling production was increasing across the country, with a tendency for artificial reforestation and governments paying for the majority of reforestation. In the 1990's, with governments focusing on reducing debt load, seedling production has decreased dramatically. Changes were made to include a focus on natural regeneration methods and a shift from government to industry being responsible for reforestation. Commitments to ecosystem-based forest management and sustainable forest management certification has elevated the importance of reliable production of high quality seedlings.

Trends in seedling demand have shifted from bareroot seedlings to container grown seedlings. Manitoba and Pineland are no exception to this trend, with the last bareroot seedlings in production having been lifted in October 2000. In hand with the phasing out of bareroot seedling is an increase in the demand for larger container stock types, on what many refer to as bareroot replacement. This has led Pineland to develop even larger stock types along with an increase in size parameters on stock types already developed. The single crop system for many greenhouses continued this year where by it produces larger, higher value seedlings using certain cultural factors which reduce risk of frost damage and allows us to reduce operating some greenhouses during very cold times of the year.

Pineland's ability to diversify and produce seedlings in a variety of tray types that are custom designed for specific uses has proven to be a major asset in the new era of reforestation. Seedling quality has been at the forefront in the last several years as a result of direct industry involvement in the reforestation efforts, where seedling performance is considered critical in total reforestation costs.

The major trend in nursery production in Canada is predicted to be high quality seedlings with a high survival factor. Industry and government cannot afford to replant sites where seedlings have died due to planting lower spec trees or lower "quality" trees just to save money in the short term. Thus the "quality" of seedlings will drive Pineland's success and not just the cost.

Target Markets

The majority of revenue is generated through the sale of seedlings. Other revenue is generated through the sale of services for seed extraction and cleaning, the delivery of seedlings, and other silvicultural related services.

Clients expect a high quality product for a reasonable price. As the cost for reforestation increases, the demand for seedlings with distinct quality characteristics has become more important for successful reforestation. Seedlings will have to be grown to match specific sites. This is to Pineland's advantage as the expertise in growing high quality site specific seedlings is available at Pineland. The focus of Pineland's clients will be toward quality seedlings at competitive prices, rather than marginal crops at very low prices.

Presently the total annual Canadian market demand is estimated to be 750 million seedlings with the demand in Pineland's identified geographic target area at about 150 million seedlings. Pineland Forest Nursery presently supplies about 15 percent of its target markets.

Usual clients include, forest industry companies in Alberta, Saskatchewan, (no sales this year) Manitoba, Ontario and the United States as well as Provincial governments and the Federal government as well as state counties. On a smaller scale, cottage associations, woodlot owners, Christmas tree growers, utility companies, mining companies and soil conservation authorities are clients either directly or indirectly.

Competitive Analysis

The ability to produce some forty different stock types of containerized seedlings is one of Pineland's most important marketing strategies. The Nursery is capable of servicing clients with high quality seedlings with a full array of morphological and physiological characteristics as required.

Also important to the future success of the agency is the ability to develop new stock types through dialogue with the clients, as the need arises. In the last year 21 new stock types were introduced. Some of these were developed directly with the client and some were developed in anticipation of future requirements of these stock types.

The reliability of Pineland Forest Nursery to meet production targets is a major consideration in the competitive analysis. Clients that request seedlings depend on those seedlings to carry out reforestation activities when the seedlings are delivered. Clients incur significant expense preparing planting sites and entering into contractual agreements for the planting. When the total seedling requirement is not fulfilled, two substantial expenses are incurred by the client, that of breaking contractual agreement for planting and that of leaving sites for an additional year before planting, possibly requiring re-treatment.

Reliability is a key factor in clients assessing the suppliers of seedlings. Pineland Forest Nursery has an excellent record of meeting seedling requirements. Reliability, quality and service are Pineland's strongest marketing tools.

CRITICAL SUCCESS FACTORS

Pineland identified four critical success factors with specific objectives for each, to ensure the long-term success of the Agency. Achievements during the 2002/03 fiscal year were as follows:

1. To run operations in a business-like manner and become financially self-sustaining:

1.1 Achieve financial targets as per pro-forma financial statements: (000's)

1.1.1 The original net income target for 2002/03 was ($59) and was revised to ($150.2). Actual net income for the fiscal year was ($162).

1.1.2 The original capital expenditure projection for 2002/03 was $262.5. The actual capital expenditure for the fiscal year was $151.9.

1.2 Increase seedling revenue.

1.2.1 The original revenue target for 2002/03 was $2,912, revised to $2,754. The actual revenue for the fiscal year was $2,873.

2. To maintain a reliable service that provides quality products and demonstrates integrity on a continuous basis.

2.1 Ensure that clients are satisfied with the services provided at Pineland and not more than one complaint is received.

2.1.1 There was one crop concern during the year.

2.2 Ensure seedlings meet quality standards and targets.

2.2.1 The overwinter crop achieved 98% quality and +2% of target. The goal was 96% quality, +/- 3% of target.

2.2.2 The current crop achieved 99.5% quality and +0.5% of target. The goal was 95% quality, +/- 5% target.

2.3 Increase number of products available to clients.

2.3.1 One new product was added, that has gained acceptance with our clients.

2.4 Increase the number of cones processed to 4,000 hectolitres.

2.4.1 2,900 hectolitres of cones were processed.

3. Retain existing client base and their associated volumes.

3.1 Continue meeting contractual quantities and quality at competitive prices.

3.1.1 Quality and quantity volumes were achieved with all clients.

3.2 Add clients to the client base.

3.2.1 Three new clients were added to the client base and all other clients were maintained.

3.3 Provide exposure for Pineland in the market place.

3.3.1 Staff attended ten events that exposed Pineland, its products and services.

3.3.2 Pineland staff continued on-site field assessments with most of our major clients. One new client toured our facility.

3.3.3 Clients have access to quality control data on a regular basis via e-mail, fax, regular mail or personal visits either to our site or theirs.

3.3.4 One staff member sits on a newly created Afforestation Research Committee.

4. Ensure that the organization is adequately prepared to meet the challenges ahead.

4.1 Ensure key personnel have the skills required to perform required duties.

4.1.1 Staff are trained and motivated through regular staff meetings at different levels and they attend outside training courses.

4.2 Develop marketing and after sales service.

4.2.1 One staff person is responsible for marketing and client relations, with full support from all other key staff.

4.3 Involve employees in developing Agency Policy.

4.3.1 The policy review committee reviewed Pineland's policies and the policy manual was updated.

4.3.2 Senior Management Team developed a Strategic Plan.

4.3.3 Sustainable Development - Appendix B.

FINANCIAL RESULTS

Summary
(000's)

	Actual 2003	Budget	Budget Variance	Actual 2002	Actual 2002 Variance
Total Revenue	**$2,873**	**$2,754**	**$119**	**$3,262**	**$(389)**
Operating Expenditures	2,592	2,442	150	2,712	(120)
Amortization	361	371	(10)	367	(6)
Interest Operating Loan	69	75	(6)	104	(35)
Interest Capital Loan	13	16	(3)	16	(3)
Total Expenditures	**3,035**	**2,904**	**131**	**3,199**	**(164)**
Net Earnings	**(162)**	**(150)**	**(12)**	**63**	**(225)**

Actual 2003 versus Budget

Total revenues were $119. (4.3%) over budget due to slightly higher than anticipated sales in both private and government overwinter crop, sale of some surplus seedlings and much higher than anticipated revenues for private sector tree improvement services.

Total expenditures were $131 (4.5%) over budget largely due to much higher than anticipated energy costs from record cold experienced in the April-May and October-November periods of 2002.

As a result, net earnings were $12 lower than anticipated.

Actual 2003 versus 2002

Total revenue was $389 (11.9%) less than total expenditures and $164 (5.1%) less than the previous year.

Decrease in revenue is from the continued down-turn in both current and overwinter crop orders from both private and government sector clients.

Expenditures are down from reduced volume production, but increased unit cost due to much higher than anticipated energy costs and the loss of economy of scale associated with the reduced volumes.

Pineland
Forest Nursery

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of the management of Pineland Forest Nursery and have been prepared in accordance with generally accepted accounting principles. In management's opinion the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data up to May 27, 2003.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.

The responsibility of the Auditor is to express an independent opinion on whether the financial statements of Pineland Forest Nursery are fairly represented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

Trevor Stanley
General Manager

May 27, 2003

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Financial Statements

For the year ended March 31, 2003

BDO Dunwoody LLP
Chartered Accountants
and Consultants

PINELAND FOREST NURSERY
An Agency of the Special Operating Agencies Financing Authority

Financial Statements
For the year ended March 31, 2003

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BDO

BDO Dunwoody LLP
Chartered Accountants
and Consultants
www.bdo.ca

700 - 200 Graham Avenue
Winnipeg Manitoba Canada R3C 4L5
Telephone (204) 956-7200
Telefax (204) 926-7201

Auditors' Report

To The Special Operating Agencies Financing Authority:

We have audited the balance sheet of **PINELAND FOREST NURSERY, An Agency of the Special Operating Agencies Financing Authority, Province of Manitoba** as at March 31, 2003 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Nursery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Nursery as at March 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
May 27, 2003

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Balance Sheet

(in thousands)

March 31	2003	2002
Assets		
Current Assets		
Accounts receivable (Note 2)	$ 388	$ 470
Unbilled revenue	252	54
Inventory	147	168
Prepaid expenses	50	42
	837	734
Receivable from the Province of Manitoba (Note 3)	187	187
Capital assets (Note 4)	2,538	2,747
	$ 3,562	$ 3,668
Liabilities and Equity		
Current Liabilities		
Working capital advances (Note 5)	$ 2,237	$ 2,143
Accounts payable and accrued liabilities	149	158
Current portion of long-term debt (Note 6)	47	43
	2,433	2,344
Long-term debt (Note 6)	51	97
Severance pay liability (Note 7)	134	121
	2,618	2,562
Contributed equity (Note 8)	356	356
Retained earnings (Page 5)	588	750
	944	1,106
	$ 3,562	$ 3,668

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Statement of Income

(in thousands)

For the year ended March 31	2003	2002
Revenue		
Private sector	$ 846	$ 1,018
Overwinter	229	384
Current	163	146
Seed services	73	3
Tree improvement	4	5
Poplar program	-	3
Other		
	1,315	1,559
Province of Manitoba	1,211	1,195
Overwinter	328	496
Current	18	12
Seed services	1	-
Other		
	1,558	1,703
	2,873	3,262
Expenses		
Salaries and benefits	1,408	1,558
Operating expenses (Page 11)	1,184	1,154
Amortization - capital assets	361	367
Interest - operating loan	69	104
Interest - capital loan	13	16
	3,035	3,199
Net income for the year (Page 5)	$ (162)	$ 63

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Statement of Retained Earnings

(in thousands)

For the year ended March 31	2003	2002
Retained earnings, beginning of year	$ 750	$ 687
Net income for the year (Page 4)	(162)	63
Retained earnings, end of year (Page 3)	$ 588	$ 750

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Statement of Cash Flows

(in thousands)

For the year ended March 31	2003	2002
Cash Flows from Operating Activities		
Net income for the year	$ (162)	$ 63
Adjustment for		
Amortization - capital assets	361	367
	199	430
Changes in non-cash working capital		
Accounts receivable	82	(273)
Short-term deposits	-	301
Unbilled revenue	(198)	140
Inventory	21	(19)
Prepaid expenses	(8)	(10)
Accounts payable and accrued liabilities	(9)	(38)
Pension liability	-	(330)
Severance pay liability	13	12
	(99)	(217)
	100	213
Cash Flows from Investing Activities		
Acquisition of capital assets	(151)	(260)
Cash Flows from Financing Activities		
Repayment of long-term debt	(43)	(39)
Net decrease in cash and cash equivalents	(94)	(86)
Cash and cash equivalents, beginning of year	(2,143)	(2,057)
Cash and cash equivalents, end of year	$ (2,237)	$ (2,143)
Supplementary Information		
Interest paid	$ 82	$ 120

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Summary of Significant Accounting Policies

(in thousands)

March 31, 2003

Basis of Reporting

The financial statements of the Nursery have been prepared in accordance with Canadian generally accepted accounting principles.

Inventory

Supplies inventory is valued at the lower of cost and replacement cost.

Capital Assets

Capital assets are recorded at cost and amortized on a declining balance basis at the following rates:

Greenhouses, coldframes, freezers, holding area, minor service buildings, major pump-house, major service buildings, propane conversion	10%
Equipment	20% - 30%

Amortization on current year additions is pro-rated based on the length of time in use in the current year.

Accrued Vacation Entitlement

The Nursery follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1995. The liability at this date is offset by a receivable from the Province and was $99 as at March 31, 1995. Any subsequent changes to the entitlement are reflected as a current year expense to the Nursery. As at March 31, 2003 there was a decrease to the entitlement in the amount of $10. The accrued vacation entitlement was $103 as of March 31, 2003 (2002 - $113) and is included in accounts payable and accrued liabilities.

Revenue Recognition

Revenues are recognized on a percentage of completion basis. Any excess of revenue recorded on a percentage of completion basis over amounts billed is recorded as unbilled revenue.

Financial Instruments

The Nursery's financial instruments consist of accounts receivable, unbilled revenue, working capital advances, accounts payable and accrued liabilities, long-term debt and severance pay liability. Unless otherwise noted, it is management's opinion that the Nursery is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

It is management's opinion that the fair value of these financial instruments approximates their carrying value.

PINELAND FOREST NURSERY
An Agency of the Special Operating Agencies Financing Authority
Notes to Financial Statements
(in thousands)

March 31, 2003

1. Nature of Organization

In 1953, Pineland Provincial Forestry Nursery was established to meet all the nursery stock requirements of the province at one location. Prior to 1953 there were several small nurseries located throughout the province. Effective April 1, 1995, Pineland Forest Nursery was designated as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. c.S185) and operates under a charter approved by the Lieutenant Governor in Council.

A management agreement between the Financing Authority and the Minister of Conservation assigns responsibility to the Nursery to manage and account for the agency related assets and operations on behalf of the Financing Authority. Pineland Forest Nursery continues to be part of the Manitoba Conservation under the general direction of the Assistant Deputy Minister of Conservation and ultimately the policy direction of the Deputy Minister and the Minister. Pineland Forest Nursery remains bound by relevant legislation of regulations. It is also bound by administrative policy, except where specific exemptions have been provided for in its charter in order to meet business objectives.

Pineland Forest Nursery is economically dependent on the Province of Manitoba, because it derives a significant portion of its revenue from the province and all of its financing requirements through the Financing Authority.

2. Accounts Receivable

	2003	2002
Trade Receivables	$ 231	$ 228
Province of Manitoba	196	284
Other		
	427	512
Allowance for doubtful accounts	(39)	(42)
	$ 388	$ 470

3. Receivable from the Province of Manitoba

The receivable from the Province of Manitoba is made up of vacation entitlements earned by the employees of the Nursery prior to creation of the Special Operating Agency on April 1, 1995 and for severance pay benefits earned prior to April 1, 1998. This receivable, or portion thereof, for the Nursery, will be collected in the event there is a cash shortfall. However, this is only likely to happen on dissolution of the Nursery. The balance is comprised of:

	2003	2002
Vacation entitlements	$ 99	$ 99
Severance pay benefits	88	88
	$ 187	$ 187

4. Capital Assets

	2003		2002	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	$ 3,882	$ 1,883	$ 3,824	$ 1,665
Equipment	1,398	859	1,304	716
	$ 5,280	$ 2,742	$ 5,128	$ 2,381
Cost less accumulated amortization		$ 2,538		$ 2,747

5. Working Capital Advances

The Financing Authority has provided the Nursery with an authorized line of working capital of $3,000 of which $2,237 was advanced at March 31, 2003 (2002 - $2,143).

6. Long-term Debt

	2003	2002
Loan payable	$ 98	$ 140
Current portion of long-term debt	(47)	(43)
	$ 51	$ 97

The Financing Authority assumed a loan payable to the Province of Manitoba on behalf of the Nursery as specified in the Management Agreement. The loan payable was issued for $356 at an interest rate of 9% repayable by the Nursery in annual installments of $55 principal and interest, maturing in 2005. Principal repayments over the next two years are as follows:

2004	$ 47
2005	51

7. Severance Pay Liability

Effective April 1, 1998, the Nursery began recording accumulated severance pay benefits for its employees. The estimate of the liability is based on an actuarial valuation report.

The Province has accepted responsibility for the severance benefits accumulated by the Nursery's employees to March 31, 1998. Accordingly, the opening severance pay liability balance as at April 1, 1998 calculated at $88 was completely offset by a receivable from the Province.

The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Nursery's actuarial liability has been calculated to be $134 as at March 31, 2003 (2002 - $121).

8. Contributed Equity

The Special Operating Agencies Financing Authority and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from the Province to the Financing Authority of inventory and capital assets valued at $712 required for the continuing operations of Pineland Forest Nursery as at March 31, 1995. The Nursery is responsible to repay the Special Operating Agencies Financing Authority the debt portion, in the amount of $356 (being half of the value of the assets) and to record the remainder as the Province's equity in the Financing Authority as related to the Nursery's operations.

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Schedule of Operating Expenses

(in thousands)

For the year ended March 31	2003	2002
Supplies	$ 279	$ 342
Natural gas and hydro	396	323
Repairs and maintenance	206	144
Property taxes and insurance	83	79
Office	87	87
Departmental services and professional fees	48	36
Freight	38	54
Marketing	25	8
Travel	25	39
Bad debts (recovery)	(3)	42
	$ 1,184	$ 1,154

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Schedule of Public Sector Compensation Disclosure

(in thousands)

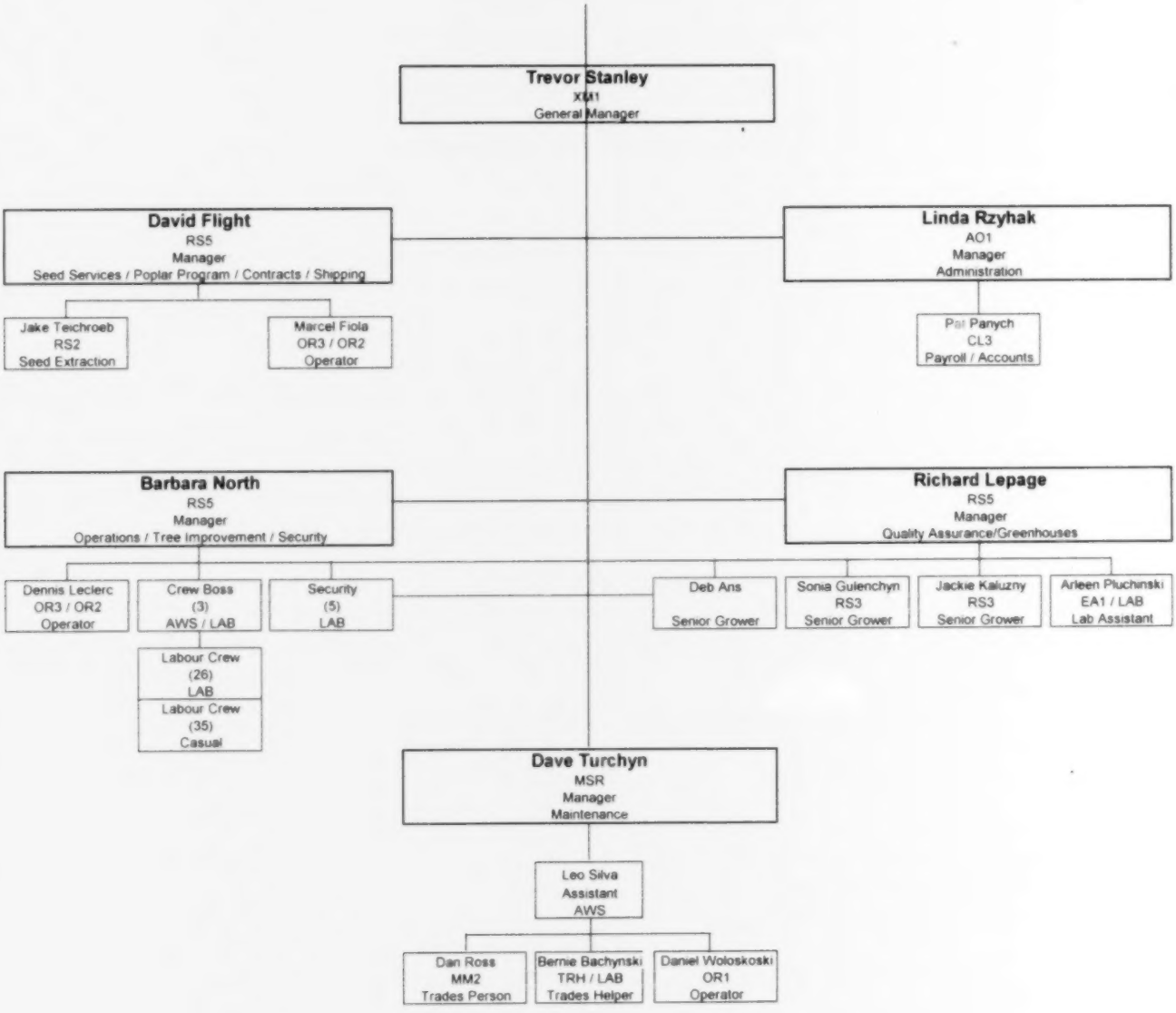
For the year ended March 31		2003	2002
Employee	**Title**		**Compensation**
Ivan Balenovic	Chief Executive Officer	$ -	$ 77

The Public Sector Compensation Disclosure Act requires all publicly funded bodies to disclose compensation to any employee or board member when such compensation exceeds $50 per annum.

PINELAND FOREST NURSERY

ORGANIZATION CHART

Appendix "A"



SUSTAINABLE DEVELOPMENT

Education:

All managers and other persons responsible for purchasing goods and services on behalf of Pineland Forest Nursery have been made aware of the Government of Manitoba's policy toward sustainable procurement and to make allowances and decisions based on the policy wherever and whenever possible and practical. Beyond purchases of goods and services, an effort is being made to reduce waste and increase efficiencies in all facets of the operation.

Resource Conservation:

- Utilization of recycled paper for virtually all purposes;
- Wherever and whenever possible, materials are purchased through Material Distribution Agency;
- Use of recycled motor oils wherever possible;
- Recapturing of used oil and shipping for re-fining;
- Sorting of waste materials and transportation to recycling depot;
- Composting of biological waste materials (cull seedling, etc.);
- Re-use of used plastic greenhouse coverings for various purposes such as protection of equipment from weather; also allow local public to utilize old greenhouse coverings;

Pollution Prevention and Human Health Protection:

- Conversion of seedling cold storage facility to newer non-ozone depleting refrigerants;
- Use of environmentally friendly industrial supplies such as those available through Share Corporation (natural-based biodegradable products);
- Minimize use of pesticides wherever possible;
- Purchase of new container washing machine which recycles water and utilizes environmentally friendly sanitizing agent (hydrogen peroxide) and lessens need to use pesticides in greenhouses.

Reduction of Fossil Fuel Emissions:

- Dedicated effort to reduce energy consumption wherever possible in greenhouses (and other facilities); example, insulation program for coldframes, retro-fitting greenhouses with more energy efficient walls, manipulation of sowing dates and temperature regimes to minimize gas consumption, use of energy curtains in some facilities;
- Utilization of small motorized equipment to travel around nursery site instead of using 1/2 tons.

Pineland continues to explore ways to continue to reduce consumption of natural gas and hydro. It is also worth noting that Pineland Nursery's primary purpose is to product seedlings for reforestation, which contributes to sustainable development. We also play an active role on committees, which promote afforestation of non-forested lands as well as providing seedlings through the Manitoba Forestry Association to landowners to plant trees for woodlots and Christmas tree plantations. Planting of seedlings on previously non-forested land adds a long-term sink for carbon sequestration.